

**REPORT OF THE AUDIT OF THE  
PIKE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**For The Period September 13, 2002  
Through November 30, 2002**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**PIKE COUNTY**  
**SHERIFF'S SETTLEMENT - 2002 TAXES**

**For The Period September 13, 2002**  
**Through November 30, 2002**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for Pike County Sheriff for the period September 13, 2002 through November 30, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$12,672,950 for the districts for 2002 taxes, retaining commissions of \$372,916 to operate the Sheriff's office. The Sheriff distributed taxes of \$12,234,372 to the districts for 2002 Taxes. Taxes of \$50 are due to the districts from the Sheriff and refunds of \$9 are due to the Sheriff from the taxing districts.

**Report Comment:**

- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**Auditor of Public Accounts**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable William Deskins, Pike County Judge/Executive  
Honorable Charles "Fuzzy" Keese, Pike County Sheriff  
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the Pike County Sheriff's Settlement - 2002 Taxes for the period September 13, 2002 through November 30, 2002. This tax settlement is the responsibility of the Pike County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Pike County Sheriff's taxes charged, credited, and paid for the period September 13, 2002 through November 30, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable William Deskins, Pike County Judge/Executive  
Honorable Charles "Fuzzy" Keesee, Pike County Sheriff  
Members of the Pike County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment.

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
September 9, 2003



PIKE COUNTY  
CHARLES "FUZZY" KEESEE, PIKE COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

For The Period September 13, 2002 Through November 30, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,427,217	\$ 1,355,256	\$ 4,552,556	\$ 1,619,198
Tangible Personal Property	512,217	511,693	1,853,442	1,903,688
Intangible Personal Property				177,379
Delinquent Solid Waste	1,635,491			
Fire Protection	7,544			
Franchise Corporation	184,512	178,846	662,544	
Additional Billings	3,774	3,519	14,129	3,625
Oil and Gas Property Taxes	563,768	535,342	2,373,511	639,569
Penalties	3	3	13	4
Adjusted to Sheriff's Receipt	5,019	6,295		(3,347)
Gross Chargeable to Sheriff	<u>\$ 4,339,545</u>	<u>\$ 2,590,954</u>	<u>\$ 9,456,195</u>	<u>\$ 4,340,116</u>
<u>Credits</u>				
Exonerations	\$ 124,109	\$ 11,221	\$ 47,534	\$ 13,758
Discounts	33,235	30,823	105,848	60,114
Transfers to Incoming Sheriff:				
Real Estate	757,596	717,531	2,896,406	857,511
Tangible Personal Property	89,250	89,325	360,630	371,203
Intangible Personal Property				27,062
Delinquent Solid Waste	1,460,704			
Total Credits	<u>\$ 2,464,894</u>	<u>\$ 848,900</u>	<u>\$ 3,410,418</u>	<u>\$ 1,329,648</u>
Taxes Collected	\$ 1,874,651	\$ 1,742,054	\$ 6,045,777	\$ 3,010,468
Less: Commissions *	79,960	74,037	90,687	128,232
Taxes Due	\$ 1,794,691	\$ 1,668,017	\$ 5,955,090	\$ 2,882,236
Taxes Paid	1,794,619	1,667,942	5,954,889	2,816,922
Refunds (Current and Prior Year)	50	47	210	65,314
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 22</u>	<u>\$ 28</u>	<u>\$ (9)</u>	<u>\$ 0</u>

\* and \*\* See Page 4.

The accompanying notes are an integral part of this financial statement.

PIKE COUNTY  
 CHARLES "FUZZY" KEESEE, PIKE COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2002 TAXES  
 For The Period September 13, 2002 Through November 30, 2002  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	6,617,173
1.5% on	\$	6,045,777

\*\* Special Taxing Districts:

Library District	\$	15
Health District		9
Extension District		<u>4</u>
Due Districts	\$	<u><u>28</u></u>

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENT

November 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of November 30, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

PIKE COUNTY  
NOTES TO FINANCIAL STATEMENT  
November 30, 2002  
(Continued)

Note 4. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 13, 2002 through November 30, 2002.

Note 5. Interest Income

The Pike County Sheriff earned \$2,891 as interest income on taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of September 9, 2003, the Sheriff owed \$96 in interest to the school district and \$291 in interest to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$2,205 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION



PIKE COUNTY  
CHARLES "FUZZY" KEESEE, SHERIFF  
COMMENT AND RECOMMENDATION

November 30, 2002

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacks an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents by the Sheriff
- All disbursement checks signed by two people and one must be the Sheriff
- The Sheriff distributes checks to taxing districts
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation (Refunds, Interest)
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's tax office prepares bank reconciliations

*Sheriff's Response:*

*The Pike County Sheriff's Department does not have the funds to hire enough people to have a proper segregation of duties.*

PRIOR YEAR:

None.





REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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**Auditor of Public Accounts**

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**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Pike County Sheriff's Settlement – 2002 Taxes for the period September 13, 2002 through November 30, 2002, and have issued our report thereon dated September 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pike County Sheriff's Settlement – 2002 Taxes for the period September 13, 2002 through November 30, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
September 9, 2003